

APPENDIX C TO PART 359—INVESTMENT
CONSIDERATIONS1. *What are some index contingencies?*

(a) If a previously reported CPI-U is revised, we will continue to use the previously reported CPI-U in calculating redemption values.

(b) If the CPI-U is rebased to a different year, we will continue to use the CPI-U based on the base reference period in effect when the security was first issued, as long as that CPI-U continues to be published.

(c) If, while an inflation-indexed savings bonds is outstanding, the applicable CPI-U is discontinued or, in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or, in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the Bureau of Labor Statistics or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. The Secretary's determinations in this regard will be final.

(d) If the CPI-U for a particular month is not reported by the last day of the following month, we will announce an index number based on the last 12-month change in the CPI-U available. Any calculations of our payment obligations on the inflation-indexed savings bonds that rely on that month's CPI-U will be based on the index number that we have announced.

2. *How will inflation lag affect my Series I savings bonds?*

The inflation rate component of investor earnings will be determined twice each year. This rate will be the percentage change in the CPI-U for the six months ending each March and September. The rate will be included in the composite rate that is announced each May and November. For Series I bonds offered from September 1, 1998, through October 31, 1998, the inflation rate component of investor earnings will be the percentage change in the CPI-U for the six months ending March 31, 1998. This rate will be included in the composite rate that is announced for Series I bonds offered effective from September 1, 1998, through October 31, 1998. In the event the Secretary, or the Secretary's designee, announces a composite rate at an effective date other than May 1 or November 1, the announcement will specify the period to be used to calculate the semiannual inflation rate. Each composite rate will be effective for the entirety of the applicable rate period that begins while the rate is in effect. Thus, an inflation rate may affect interest accruals from 3 to 13 months from the date that the CPI-U is measured.

Example 1. The inflation rate determined from the CPI-U for the six-month period from October, 2003, through March, 2004, will be included in the composite rate announced in May, 2004. For a bond purchased in May 1999, this rate would go into effect immediately, since a new semiannual rate period for this bond will begin in May, 2004. Series I bonds issued in May begin new semiannual rate periods in the months of May and November. In this example, the inflation rate will have its earliest impact in June 2004, when interest from May accrues, three months after the end of the six-month CPI-U period that ends in March, 2004.

Example 2. The May 1, 2004, rate will apply similarly to a bond purchased in October 1999. Series I bonds issued in October begin new semiannual rate periods in the months of April and October. Thus, for this bond, the May 1, 2004, composite rate (which includes the inflation rate) will not go into effect until a new semiannual rate period begins on October 1, 2004. This rate, therefore, will determine the inflation-indexed portion of each interest accrual from November, 2004, through April, 2005. In this example, the inflation rate will have its latest impact in April 2005, 13 months following the six-month CPI-U period that ended March 31, 2004.

APPENDIX D TO PART 359—TAX
CONSIDERATIONS1. *What are some general tax considerations?*

General. Interest is subject to all taxes imposed under the Internal Revenue Code of 1986, as amended. The bonds are also subject to Federal and State estate, inheritance, gift, or other excise taxes. The bonds are exempt from all other taxation by any State or local taxing authority.

2. *What reporting methods are available for savings bonds?*

(a) *Reporting methods.* You may use either of the following two methods for reporting the increase in the redemption value of the bond for Federal income tax purposes:

(1) *Cash basis method.* You may defer reporting the increase to the year of final maturity, redemption, or other disposition, whichever is earliest; or

(2) *Accrual basis method.* You may elect to report the increase each year, in which case the election applies to all Series I bonds that you then own, those subsequently acquired, and to any other obligations purchased on a discount basis, such as savings bonds of Series E or EE.

(b) *Changing methods.* If you use the cash basis method, you may change to the accrual basis method without obtaining permission from the Internal Revenue Service. However, once you elect to use the accrual basis method in paragraph (a)(2), you may change the

method of reporting the increase only by following the specific procedures prescribed by the Internal Revenue Service for making an automatic method change. For further information, you may contact the Internal Revenue Service director for your area, or the Internal Revenue Service, Washington, DC 20224.

3. What transactions have potential tax consequences?

The following types of transactions, among others, may have potential tax consequences:

(a) A reissue that affects the rights of any of the persons named on a definitive Series I savings bonds may have tax consequences for the owner.

(b) The transfer of a book-entry Series I savings bonds from one owner to another may have tax consequences for the purchaser.

(c) The redemption of a book-entry Series I savings bonds by the secondary owner may have tax consequences for the primary owner.

(d) The purchase of a Series I savings bonds as a gift may have gift tax consequences for the purchaser.

[67 FR 64278, Oct. 17, 2002, as amended at 68 FR 24806, May 8, 2003]

PART 360—REGULATIONS GOV- ERNING DEFINITIVE UNITED STATES SAVINGS BONDS, SERIES I

Subpart A—General Information

Sec.

360.0 Applicability.

360.1 Official agencies.

360.2 Definitions.

360.3 Converting definitive savings bonds to book-entry bonds in New Treasury Direct.

Subpart B—Registration

360.5 General rules.

360.6 Authorized forms of registration.

360.7 Chain letters prohibited.

Subpart C—Limitations on Annual Purchases

360.10 Amounts which may be purchased.

360.11 Computation of amount.

360.12 Disposition of excess.

360.13 Employee plans—Conditions of eligibility.

Subpart D—Limitations on Transfer or Pledge

360.15 Transfer.

360.16 Pledge.

Subpart E—Judicial Proceedings

360.20 General.

360.21 Payment to judgment creditors.

360.22 Payment or reissue pursuant to divorce.

360.23 Evidence.

360.24 Payment pursuant to judicial or administrative forfeiture.

Subpart F—Relief for Loss, Theft, Destruction, Mutilation, Defacement, or Nonreceipt of Bonds

360.25 General.

360.26 Application for relief; after receipt of bond.

360.27 Application for relief; nonreceipt of bond.

360.28 Recovery or receipt of bond before or after relief is granted.

360.29 Adjudication of claims.

Subpart G—General Provisions for Payment

360.35 Payment (redemption).

360.36 Payment during life of sole owner.

360.37 Payment during lives of both co-owners.

360.38 Payment during lifetime of owner of beneficiary bond.

360.39 Surrender for payment.

360.40 Special provisions for payment.

360.41 Partial redemption.

360.42 Nonreceipt or loss of remittance issued in payment.

360.43 Effective date of request for payment.

360.44 Withdrawal of request for payment.

Subpart H—Reissue and Denominational Exchange

360.45 General.

360.46 Effective date of request for reissue.

360.47 Authorized reissue; during lifetime.

360.48 Restrictions on reissue; denominational exchange.

360.49 Correction of errors.

360.50 Change of name.

360.51 Requests for reissue.

Subpart I—Certifying Officers

360.55 Individuals authorized to certify.

360.56 General instructions and liability.

360.57 When a certifying officer may not certify.

360.58 Forms to be certified.

Subpart J—Minors, Incompetents, Aged Persons, Absentees, et al.

360.60 Payment to representative of an estate.

360.61 Payment after death.

360.62 Payment to minor.